

**REPORT OF THE AUDIT OF THE
METCALFE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2007**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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C R I T L U A L L E N
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

The Honorable Greg Wilson, Metcalfe County Judge/Executive

The Honorable Donald Butler, Former Metcalfe County Judge/Executive

Members of the Metcalfe County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the financial statements of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Metcalfe County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements.

We engaged Ross & Company, PLLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Metcalfe County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE METCALFE COUNTY FISCAL COURT

June 30, 2007

Ross & Company, PLLC has completed the audit of the Metcalfe County Fiscal Court for fiscal year ended June 30, 2007. We have issued an unqualified opinion, on the governmental activities, each major fund, and the aggregate remaining fund information of Metcalfe County, Kentucky. We have issued a qualified opinion, based on our audit and the report of the other auditors, on the discretely presented component unit because of a differing basis of accounting used by the discretely presented component unit.

Financial Condition:

The fiscal court had net assets of \$7,406,935 as of June 30, 2007. The fiscal court had unrestricted net assets of \$3,689,859 in its governmental funds as of June 30, 2007. The fiscal court's discretely presented component unit had net assets of \$2,502,783 as of June 30, 2007. The discretely presented component unit had net cash and cash equivalents of \$177,618. The fiscal court had total debt principal as of June 30, 2007 of \$6,312,289 with \$704,839 due within the next year.

Report Comments:

- 2007-01 The County Should Improve Its Internal Control Procedures
- 2007-02 The County Should Maintain Proper Records For The Public Properties Corporation
- 2007-03 The County Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements
- 2007-04 The County Should Review Control Activities Of The Accounting Software
- 2007-05 Metcalfe County Fiscal Court Should Improve Purchase And Procurement Procedures
- 2007-06 The County Should Amend And File The Former Judge/Executive's 2005 W-2
- 2007-07 The Fiscal Court Minutes Should Include A Listing Of All Approved Claims, Road Logs, And Road Plans
- 2007-08 The County Had \$58,000 Of Questionable Expenditures From The Road Fund
- 2007-09 The County's Supporting Documentation Was Incomplete For Asphalt Expenditures And Road Paving Totaling \$596,986

Deposits:

The fiscal court and component unit's deposits were insured and collateralized by bank securities.

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CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

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To the People of Kentucky

Honorable Steven L. Beshear, Governor

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Members of the Metcalfe County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of Metcalfe County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Metcalfe County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Metcalfe County Health Services, Inc., a discretely presented component unit, which represents 100 percent, respectively of the assets and revenues of the discretely presented component opinion unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included for the Metcalfe County Health Services, Inc., is based on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, and the report of other auditors provides a reasonable basis for our opinions.

As described in Note 1, Metcalfe County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements of Metcalfe County Health Services, Inc., a discretely presented component unit of the Metcalfe County Fiscal Court, are presented in accordance with the accrual basis of accounting and therefore include certain accruals required by accounting principles generally accepted in the United States of America. These accruals are not in accordance with the modified cash basis of accounting. The amounts by which these accruals affect the financial statements are not reasonably determinable.

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In our opinion, based on our report and the report of other auditors, except for the effects of such adjustments, if any, as might have been determined had the Metcalfe County Health Services, Inc., been prepared using the same basis of accounting as Metcalfe County, Kentucky, the financial statements referred to above present fairly, in all material respects, the respective financial position of the discretely presented component unit of Metcalfe County, Kentucky as of June 30, 2007 and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In addition, in our opinion, based on our report and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Metcalfe County, Kentucky, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Metcalfe County, Kentucky's basic financial statements. The accompanying combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated January 28, 2008, on our consideration of Metcalfe County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2007-01 The County Should Improve Its Internal Control Procedures
- 2007-02 The County Should Maintain Proper Records For The Public Properties Corporation
- 2007-03 The County Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements
- 2007-04 The County Should Review Control Activities Of The Accounting Software
- 2007-05 Metcalfe County Fiscal Court Should Improve Purchase And Procurement Procedures
- 2007-06 The County Should Amend And File The Former Judge/Executive's 2005 W-2

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- 2007-07 The Fiscal Court Minutes Should Include A Listing Of All Approved Claims, Road Logs, And Road Plans
- 2007-08 The County Had \$58,000 Of Questionable Expenditures From The Road Fund
- 2007-09 The County's Supporting Documentation Was Incomplete For Asphalt Expenditures And Road Paving Totaling \$596,986

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross & Company".

Ross & Company, PLLC
Certified Public Accountants

January 28, 2008

METCALFE COUNTY OFFICIALS

For The Year Ended June 30, 2007

Fiscal Court Members:

Donald M. Butler, II, through December 31, 2006	County Judge/Executive
Greg Wilson, beginning January 1, 2007	County Judge/Executive
Jessie Harper, thorough December 31, 2006	Magistrate
Danny Joe Shive, beginning January 1, 2007	Magistrate
Barry Steele, through December 31, 2006	Magistrate
Arkley Phelps, beginning January 1, 2007	Magistrate
Dale Rowlett	Magistrate
Greg White, through December 1, 2006	Magistrate
Scotty Mosby, beginning January 1, 2007	Magistrate

Other Elected Officials:

Sharon Bowles Howard, through December 31, 2006	County Attorney
Barry D. Gilley, beginning January 1, 2007	County Attorney
Matthew Gallagher, through December 31, 2006	Jailer
Jimmy Shive, beginning January 1, 2007	Jailer
Carol E. England	County Clerk
Mary M. Shive, through December 31, 2006	Circuit Court Clerk
Tommy Garrett, beginning January 1, 2007	Circuit Court Clerk
Rondal Shirley	Sheriff
Michael Welsh	Property Valuation Administrator
Larry Wilson	Coroner

Appointed Personnel:

Martha C. Richardson, through December 31, 2006	County Treasurer
Vickie Stephens, beginning January 1, 2007	County Treasurer
Lorrie A. Boston	Finance Officer/Occupational Tax Collector

METCALFE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

METCALFE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2007

	Governmental Activities	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 2,612,426	\$ 177,618
Asset Held For Resale	394,100	
Note Receivable (Nursing Home)	40,000	
Accounts Receivable		785,367
Inventory		11,936
Prepaid Insurance		46,893
Interest Receivable		3,771
Total Current Assets	<u>3,046,526</u>	<u>1,025,585</u>
Noncurrent Assets:		
Note Receivable (Nursing Home)	885,000	
Capital Assets - Net of Accumulated Depreciation		
Land	501,025	76,288
Land Improvements		52,559
Buildings	7,237,782	647,928
Other Equipment	550,272	1,132,927
Vehicles and Equipment	181,547	
Infrastructure Assets - Net of Depreciation	1,317,072	
Funded Depreciation Accounts		842,797
Residents' Accounts		13,423
Total Noncurrent Assets	<u>10,672,698</u>	<u>2,765,922</u>
Total Assets	<u>13,719,224</u>	<u>3,791,507</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable		162,257
Estimated Due to Medicare		52,132
Resident's Accounts		13,423
Payroll Withholdings		2,426
Accrued Management Fee		19,605
Accrued Payroll		81,899
Accrued Vacation		31,982
Notes Payable		40,000
Bonds Payable	205,000	
Financing Obligations Payable	499,839	
Total Current Liabilities	<u>704,839</u>	<u>403,724</u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
June 30, 2007
(Continued)

	Governmental Activities	Component Unit
Noncurrent Liabilities:		
Notes Payable	\$	\$ 885,000
Bonds Payable	4,290,000	
Financing Obligations Payable	1,317,450	
Total Noncurrent Liabilities	5,607,450	885,000
Total Liabilities	6,312,289	1,288,724
NET ASSETS		
Invested in Capital Assets,		
Net of Related Debt	3,475,409	984,702
Restricted For:		
Capital Projects	240,044	3,988
Debt Service	1,623	
Unrestricted	3,689,859	1,514,093
Total Net Assets	\$ 7,406,935	\$ 2,502,783

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

METCALFE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

Functions/Programs Reporting Entity	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 949,019	\$ 102,907	\$ 155,579	\$ 657,543
Protection to Persons and Property	453,479	20,351	83,849	
General Health and Sanitation	213,109			
Social Services	15,604			
Recreation and Culture	6,666			
Roads	957,160		1,270,958	255,014
Debt Service	351,020		397,744	
Capital Projects	846,401			
Total Governmental Activities	<u>\$ 3,792,458</u>	<u>\$ 123,258</u>	<u>\$ 1,908,130</u>	<u>\$ 912,557</u>
Component Units:				
Metcalf County Health Services, Inc.	<u>\$ 4,548,615</u>	<u>\$ 4,849,613</u>		

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Other Taxes

Excess Fees

Miscellaneous Revenues

Accrued Interest

 Total General Revenues

 Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

Net (Expenses) Revenues
and Changes in Net Assets

<u>Governmental</u> <u>Activities</u>	<u>Component Unit -</u>
\$ (32,990)	
(349,279)	
(213,109)	
(15,604)	
(6,666)	
568,812	
46,724	
(846,401)	
<u>(848,513)</u>	
	<u>\$ 300,998</u>
293,104	
24,691	
49,336	
1,026,579	
50,296	
454,685	
97,067	
<u>1,995,758</u>	
1,147,245	300,998
<u>6,259,690</u>	<u>2,201,785</u>
<u>\$ 7,406,935</u>	<u>\$ 2,502,783</u>

The accompanying notes are an integral part of the financial statements.

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METCALFE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

METCALFE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2007

	General Fund	Road Fund	Jail Fund	Ambulance Fund
ASSETS				
Cash and Cash Equivalents	\$ 750,316	\$ 531,265	\$ 109,933	\$ 509,221
Total Assets	<u>\$ 750,316</u>	<u>\$ 531,265</u>	<u>\$ 109,933</u>	<u>\$ 509,221</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 741	\$ 3,928	\$	\$
Unreserved:				
General Fund	749,575			
Special Revenue Funds		527,337	109,933	509,221
Debt Service Fund				
Capital Projects Fund				
Total Fund Balances	<u>\$ 750,316</u>	<u>\$ 531,265</u>	<u>\$ 109,933</u>	<u>\$ 509,221</u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2007
(Continued)

State Grants Fund	Metcalf County Public Properties Corporation Sinking Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 359,089	\$ 1,623	\$ 350,979	\$ 2,612,426
\$ 359,089	\$ 1,623	\$ 350,979	\$ 2,612,426
\$ 5,000	\$	\$ 689	\$ 10,358
			749,575
		340,845	1,487,336
	1,623		1,623
354,089		8,756	362,845
\$ 359,089	\$ 1,623	\$ 350,979	\$ 2,612,426

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balances	\$ 2,612,426
Amounts Reported for Governmental Activities in the Statement of Net Assets Are Different Because:	
Notes Receivable	925,000
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	11,366,006
Accumulated Depreciation	(1,578,308)
Asset Held For Resale	394,100
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	(1,817,289)
Bonded Debt	(4,495,000)
Net Assets of Governmental Activities	\$ 7,406,935

The accompanying notes are an integral part of the financial statements.

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METCALFE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

METCALFE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

	General Fund	Road Fund	Jail Fund	Ambulance Fund
REVENUES				
Taxes	\$ 1,079,564	\$	\$	\$ 187,467
In Lieu Tax Payments	110,012			
Excess Fees	50,146			150
Licenses and Permits	7,752			
Intergovernmental	161,535	1,513,644	72,655	21,244
Miscellaneous	129,512	395,725	21,434	
Interest	35,757	43,979		17,089
Total Revenues	<u>1,574,278</u>	<u>1,953,348</u>	<u>94,089</u>	<u>225,950</u>
EXPENDITURES				
General Government	720,295			
Protection to Persons and Property	150,035		133,693	185,187
General Health and Sanitation	93,946	13,852		
Social Services	4,000			
Recreation and Culture				
Roads		1,367,175		
Debt Service	121,459	828,422		
Capital Projects	24,995	394,100		
Administration	345,788	103,791	7,810	
Total Expenditures	<u>1,460,518</u>	<u>2,707,340</u>	<u>141,503</u>	<u>185,187</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>113,760</u>	<u>(753,992)</u>	<u>(47,414)</u>	<u>40,763</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds	15,995	764,500		
Transfers from Other Funds	398	727	135,064	707
Transfers to Other Funds	(242,741)	(41,289)		
Total Other Financing Sources (Uses)	<u>(226,348)</u>	<u>723,938</u>	<u>135,064</u>	<u>707</u>
Net Change in Fund Balances	(112,588)	(30,054)	87,650	41,470
Fund Balances - Beginning	862,904	561,319	22,283	467,751
Fund Balances - Ending	<u>\$ 750,316</u>	<u>\$ 531,265</u>	<u>\$ 109,933</u>	<u>\$ 509,221</u>

The accompanying notes are an integral part of the financial statements.

METCALFE COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2007
(Continued)

State Grants Fund	Metcalfe County Public Properties Sinking Fund	Non-Major Governmental Funds	Total Governmental Funds
\$	\$	\$	\$ 1,267,031
			110,012
			50,296
			7,752
499,348	397,744	185,946	2,852,116
8,645		297	555,613
	59		96,884
<u>507,993</u>	<u>397,803</u>	<u>186,243</u>	<u>4,939,704</u>
		39,438	759,733
			468,915
104,785			212,583
			4,000
		42,710	42,710
			1,367,175
	397,743		1,347,624
149,860		115,228	684,183
		6,160	463,549
<u>254,645</u>	<u>397,743</u>	<u>203,536</u>	<u>5,350,472</u>
 <u>253,348</u>	 <u>60</u>	 <u>(17,293)</u>	 <u>(410,768)</u>
			780,495
75,000		72,133	284,029
			(284,030)
<u>75,000</u>	<u></u>	<u>72,133</u>	<u>780,494</u>
328,348	60	54,840	369,726
30,741	1,563	296,139	2,242,700
<u>\$ 359,089</u>	<u>\$ 1,623</u>	<u>\$ 350,979</u>	<u>\$ 2,612,426</u>

The accompanying notes are an integral part of the financial statements.

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METCALFE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2007

For The Year Ended June 30, 2007

Change in Net Assets of Governmental Activities	\$ 1,147,245
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TO THE FINANCIAL STATEMENTS**

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METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Metcalf County Health Services, Inc., a discretely presented component unit of Metcalf County Fiscal Court presents their financial statements in accordance with generally accepted accounting principles. The discretely presented component unit has adopted the accrual basis of accounting under which revenues are recognized when they are earned and expenses are recognized when incurred. The funds are accounted for on an economic resource measurement focus. With this measurement focus, all assets and liabilities are included on the Statement of Net Assets.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Metcalf County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as part of the county's primary government using the blending method.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Metcalf County Public Properties Corporation

The Metcalfe County Fiscal Court (Fiscal Court) has the authority to appoint a voting majority of the Metcalfe County Public Properties Corporation's (PPC) Board of Directors. Fiscal Court also has the ability to approve or modify the PPC's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Directors, or otherwise impose its will on the PPC. In addition, Fiscal Court is financially accountable for the PPC; legally entitled to the PPC's resources as well as legally obligated for the PPC's debt. Financial information for the Public Properties Corporation is blended within Metcalfe County's financial statements.

Discretely Presented Component Unit

The component unit's column in the government-wide financial statements includes the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize this organizations separateness from the fiscal court's primary government.

Metcalf County Health Services, Inc.

On January 13, 1976, Metcalfe County Fiscal Court (Fiscal Court) authorized a plan for financing a nursing home project in Metcalfe County (County). The County formed Metcalfe Health Care Center Corporation, a non-stock, non-profit, public, and charitable corporation, for such acquisition and construction. Metcalfe County has leased the property, plant, and equipment from the Corporation at an annual rental equal to the total amount of annual debt requirement on the bonds issued and sold by the Corporation. A second non-stock, non-profit, public, and charitable corporation, Metcalfe County Health Services, Inc., was formed by the County to sub-lease and operate the nursing home at the same annual rate.

The bond sale was closed March 3, 1977, and the operations of the nursing home started at this date by Metcalfe County Health Services, Inc. The nursing home is operated with two levels of care, skilled care and personal care. The nursing home has seventy-one skilled care beds and thirty personal care beds. The nursing home serves residents principally from Metcalfe County and the surrounding area.

The Corporation is exempt from federal income tax as an organization described in Section 501(c)3 of the Internal Revenue Code, classified as other than a private foundation.

Audited financial statements for Metcalfe County Health Services, Inc., a discretely presented component unit, may be requested by contacting Metcalfe County Health Services, Inc., 701 Skyline Drive, Edmonton, KY 42129.

C. Metcalfe County Elected Officials

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Metcalfe County Elected Officials (Continued)

Kentucky law provides for election of the officials above from the geographic area constituting Metcalfe County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities, and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Metcalfe County, Kentucky.

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Metcalfe County does not report any business-type activities.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) October 1, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale in April following the delinquency date.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. Since Metcalfe County does not have any proprietary funds, its major funds are determined using governmental funds only. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail revenues and expenditures of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Ambulance Fund – This fund is used to account for revenues and expenditures for the ambulance service. The primary sources of revenue for this fund are real and personal property, motor vehicle, and other taxes. Expenditures are for protection to persons and property.

State Grants Fund – The primary function of this fund is to account for revenues and expenditures from state grant money.

Metcalf County Public Properties Corporation Sinking Fund – The primary function is to account for the accumulation of resources for the payment of general and long-term debt principal and interest. Debt service is provided by rental payments in the amount of the bond payments from Administrative Office of the Courts, Commonwealth of Kentucky.

The government also has the following non-major funds: Local Government Economic Assistance Fund, Courthouse Renovation Fund, Disaster and Emergency Services Fund, Parks and Recreation Fund, Federal Grants Fund, Metcalfe County Public Properties Construction Fund, and Homeland Security Fund, which are presented as Special Revenue Funds. Special revenue funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 1,000	3-25
Vehicles	\$ 1,000	3-25
Infrastructure	\$ 10,000	10-50

G. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity (Continued)

“Reserved for Encumbrances” are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Formal budgets are not adopted for the Metcalfe County Public Properties Corporation Sinking Fund. The Metcalfe County Public Properties Corporation Sinking Fund consists of funds related to the debt service requirements of a bond issuance. The Governor’s Office for Local Development does not require these funds to be budgeted.

J. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization’s governing board. Based on these criteria, the following are considered related organizations of Metcalfe County Fiscal Court: Edmonton Metcalfe County Industrial Development Authority.

K. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered joint ventures of the Metcalfe County Fiscal Court.

Ambulance Service Corporation, Inc.

The Metcalfe County Fiscal Court has retained an ongoing financial responsibility for the Ambulance Service Corporation, Inc. (Ambulance Service). The Ambulance Service is a joint venture among Barren County Fiscal Court, City of Edmonton, City of Glasgow, TJ Sampson Community Hospital, and Metcalfe County Fiscal Court to provide emergency medical care service and transportation to the

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

K. Joint Ventures (Continued)

Ambulance Service Corporation, Inc.

citizens of Barren County, City of Glasgow, and Metcalfe County. Each participating entity is responsible for a proportionate part of any deficit (10 percent of deficit for each board member.) The Fiscal Court has two board members; therefore, the Fiscal Court is responsible for 20 percent of any deficits of the Ambulance Service.

Barren/Metcalfe Emergency Communications Center

The Metcalfe County Fiscal Court, Barren County Fiscal Court, City of Glasgow, City of Cave City, City of Park City, City of Hiseville, and City of Edmonton entered into an interlocal agreement to provide enhanced 911 services to the citizens of Metcalfe County and Barren County. The interlocal agreement established Barren/Metcalfe Emergency Communications Center (BMECC). Under the agreement, the Metcalfe County Fiscal Court is required to establish and collect 911 fees. These 911 fees are to be remitted to BMECC.

Edmonton/Metcalfe County 911 Board

The Metcalfe County Fiscal Court (Fiscal Court) and City of Edmonton entered into an interlocal agreement to provide 911 services to the citizens of Metcalfe County. On September 14, 1993, the Fiscal Court voted to “share 50/50 the cost of police dispatching” with the City of Edmonton.

Green River Animal Shelter

The Metcalfe County Fiscal Court and Adair County Fiscal Court entered into an interlocal agreement for the establishment and maintenance of the Green River Animal Shelter.

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution’s failure, the County’s deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2007 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 501,025	\$	\$	\$ 501,025
Construction In Progress	162,218		(162,218)	
Total Capital Assets Not Being Depreciated	663,243		(162,218)	501,025
Capital Assets, Being Depreciated:				
Buildings	7,497,693	402,876		7,900,569
Other Equipment	986,473	14,073	(18,000)	982,546
Vehicles and Equipment	347,224	52,765	(31,975)	368,014
Infrastructure	1,038,403	575,449		1,613,852
Total Capital Assets Being Depreciated	9,869,793	1,045,163	(49,975)	10,864,981
Less Accumulated Depreciation for:				
Buildings	(571,055)	(91,732)		(662,787)
Other Equipment	(367,173)	(74,641)	9,540	(432,274)
Vehicles and Equipment	(176,093)	(27,170)	16,796	(186,467)
Infrastructure	(163,327)	(133,453)		(296,780)
Total Accumulated Depreciation	(1,277,648)	(326,996)	26,336	(1,578,308)
Total Capital Assets, Being Depreciated, Net	8,592,145	718,167	(23,639)	9,286,673
Governmental Activities Capital Assets, Net	\$ 9,255,388	\$ 718,167	\$ (185,857)	\$ 9,787,698

Depreciation expense was charged to functions of the governmental activities as follows:

Governmental Activities:

General Government	\$ 77,360
Protection to Persons and Property	35,129
General Health and Sanitation	526
Social Services	11,604
Recreation and Culture	13,816
Roads, Including Depreciation of General Infrastructure Assets	188,561
Total Depreciation Expense - Governmental Activities	<u>\$ 326,996</u>

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 3. Capital Assets (Continued)

Capital asset activity for the discretely presented component unit for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated:				
Land	\$ 76,288	\$	\$	\$ 76,288
Total Capital Assets Not Being Depreciated	76,288			76,288
Capital Assets, Being Depreciated:				
Land Improvements	30,570	21,989		52,559
Buildings and Improvements	2,186,311	86,940		2,273,251
Equipment and Furnishings	1,085,565	47,362		1,132,927
Total Capital Assets Being Depreciated	3,302,446	156,291		3,458,737
Less Accumulated Depreciation For:				
Land Improvements, Buildings and Improvements, and Equipment and Furnishings	(1,485,246)	(140,077)		(1,625,323)
Total Accumulated Depreciation	(1,485,246)	(140,077)		(1,625,323)
Total Capital Assets, Being Depreciated, Net	1,817,200	16,214		1,833,414
Capital Assets, Net	\$ 1,893,488	\$ 16,214	\$ 0	\$ 1,909,702

Depreciation expense was charged to functions of the governmental activities as follows:

Metcalf County Health Services, Inc.	\$ 140,077
Total Depreciation Expense - Component Unit	\$ 140,077

Note 4. Note Receivable

On November 24, 2004, Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties on behalf of Metcalfe County Health Services, Inc. (Nursing Home). The agreement is that Metcalfe County Health Services, Inc. will make principal and interest payments until paid in full. The financing agreement original issue was \$1,000,000. The principal balance outstanding as of June 30, 2007 is \$925,000.

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 5. Short-term Debt

A. Mac Trucks

1. On July 7, 2006, Metcalfe County entered into a financing obligation with the Kentucky Association of Counties for the purchase of Mac trucks for \$370,400 that were sold at an auction. The proceeds of the sale paid off the principal balance owed. As of June 30, 2007, the principal balance was zero.

2. On June 26, 2007, Metcalfe County entered into a financing obligation with the Kentucky Association of Counties for the purchase of Mac trucks for \$394,100 to be sold at an auction at a later date. The proceeds of the sale will be used to pay off the principal balance owed. As of June 30, 2007, the principal balance was \$394,100.

B. Tax Anticipation Note

On August 25, 2006, Metcalfe County entered into an agreement with the Kentucky Association of Counties for a Tax Anticipation Note. The County typically enters into such an agreement each year. The County's intention is to invest the money into interest-bearing accounts and also to have the money in case of emergency. The Tax Anticipation Note is paid in full by the end of the fiscal year.

C. Changes In Short-Term Debt

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 365,000	\$ 764,500	\$ 735,400	\$ 394,100	\$ 394,100
Tax Anticipation Notes		530,160	530,160		
Governmental Activities					
Short-term Liabilities	<u>\$ 365,000</u>	<u>\$ 1,294,660</u>	<u>\$ 1,265,560</u>	<u>\$ 394,100</u>	<u>\$ 394,100</u>

Note 6. Long-term Debt

A. First Mortgage Revenue Bond, Series 2001 - Metcalfe County Public Properties Corporation

Metcalfe County Public Properties Corporation (PPC), an agency and instrumentality of the Metcalfe County Fiscal Court (Fiscal Court), created on January 23, 2001, issued Metcalfe County Public Properties Corporation First Mortgage Revenue Bonds (Bonds), Series 2001, on October 1, 2001, for the purposes of acquisition, construction, installation, and equipping of the Metcalfe County Courthouse Facility. On October 9, 2001, \$4,850,000 of bonds were issued at various interest rates. Since these bonds were issued at a discount of \$96,950, net bond proceeds were \$4,753,050. The PPC has entered into an agreement to lease the Metcalfe County Courthouse Facility to the Fiscal Court for the amount of the bond payments. The Fiscal Court has a sublease with Administrative Office of the Courts, Commonwealth of Kentucky, for approximately 100% of the Metcalfe County Courthouse Facility. Debt service requirements are:

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Long-term Debt (Continued)

A. First Mortgage Revenue Bond, Series 2001 - Metcalfe County Public Properties Corporation (Continued)

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2008	\$ 190,000	\$ 182,043
2009	195,000	175,108
2010	205,000	167,698
2011	210,000	159,703
2012	220,000	151,303
2013-2017	1,240,000	612,443
2018-2022	1,545,000	307,805
2023-2026	355,000	16,685
Totals	<u>\$ 4,160,000</u>	<u>\$ 1,772,788</u>

B. First Mortgage Revenue Bonds, Series 2001 B – Metcalfe County Public Properties Corporation

Metcalfe County Public Properties Corporation (PPC), an agency and instrumentality of the Metcalfe County Fiscal Court (Fiscal Court) created on January 23, 2001, issued Metcalfe County Public Properties Corporation First Mortgage Revenue Bonds, Series 2001 B, on August 1, 2003 for the purposes of financing additional costs of constructing and equipping a new courthouse facility, capitalizing interest, and paying the costs of issuance on the Series B Bonds. On August 1, 2003, \$400,000 of bonds were issued at various interest rates. Since these bonds were issued at a discount of \$7,680, net bond proceeds were \$392,320. The PPC has entered into an agreement to lease the Metcalfe County Courthouse Facility to the Fiscal Court for the amount of the bond payments. The Fiscal Court has a sublease with Administrative Office of the Courts, Commonwealth of Kentucky, for approximately 100% of the Metcalfe County Courthouse Facility. Debt service requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2008	\$ 15,000	\$ 14,010
2009	15,000	13,530
2010	15,000	13,050
2011	15,000	12,570
2012	20,000	12,090
2013-2017	100,000	49,170
2018-2022	125,000	24,150
2023-2026	30,000	1,380
Totals	<u>\$ 335,000</u>	<u>\$ 139,950</u>

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Long-term Debt (Continued)

C. Enrichment Center

On March 2, 2002, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the Metcalfe County Enrichment Center Project. The principal was \$250,000 at various interest rates for a period of twenty years, interest and principal paid monthly. Principal outstanding as of June 30, 2007, was \$183,724. Principal and interest payment requirements excluding an anticipated interest rebate from KACoLT are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2008	\$ 8,698	\$ 8,905
2009	9,137	8,462
2010	9,596	8,006
2011	10,079	7,523
2012	10,585	7,025
2013-2017	47,940	22,331
2018-2022	87,689	14,039
Totals	<u>\$ 183,724</u>	<u>\$ 76,291</u>

D. Enrichment Center - Land

On June 13, 2004, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the acquisition of land and building for the Metcalfe County Enrichment Center Project. The principal was \$162,000 at various interest rates for a period of fifteen years, principal paid yearly and interest paid monthly. Principal outstanding as of June 30, 2007, was \$144,906. Payment requirements excluding an anticipated interest rebate from KACoLT are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2008	\$ 6,152	\$ 6,538
2009	6,393	6,228
2010	6,645	5,937
2011	6,906	5,625
2012	7,177	5,310
2013-2017	40,345	21,166
2018-2022	48,922	10,919
2023-2024	22,366	830
Totals	<u>\$ 144,906</u>	<u>\$ 62,553</u>

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Long-term Debt (Continued)

E. Nursing Home

On November 24, 2004, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the renovations to the Metcalfe County Nursing Home. The principal was \$1,000,000 at 2.175 percent interest rate for a period of twenty years, interest paid monthly and principal paid yearly. Payment requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest
2008	\$ 40,000	\$ 45,112
2009	40,000	43,061
2010	40,000	41,050
2011	45,000	38,780
2012	45,000	36,563
2013-2017	240,000	147,291
2018-2022	285,000	80,174
2023-2025	190,000	11,312
Totals	<u>\$ 925,000</u>	<u>\$ 443,343</u>

F. Backhoe

On December 10, 2004, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the purchase of a backhoe. At June 30, 2007 the principal was \$18,889, interest paid monthly and principal paid yearly. Payment requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2008	<u>\$ 18,889</u>	<u>\$ 82</u>

G. Road Equipment

In fiscal year 2006, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the purchase of road equipment. At June 30, 2007 the principal was \$39,500, interest paid monthly and principal paid yearly. Payment requirements are:

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Long-term Debt (Continued)

G. Road Equipment (Continued)

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2008	\$ 10,000	\$ 1,651
2009	10,000	1,231
2010	10,000	731
2011	9,500	58
Totals	\$ 39,500	\$ 3,671

H. Tractor Mower

In fiscal year 2006, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the purchase of a tractor. At June 30, 2007 the principal was \$56,175, interest paid monthly and principal paid yearly. Payment requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2008	\$ 15,000	\$ 2,258
2009	15,000	1,590
2010	15,000	842
2011	11,175	60
Totals	\$ 56,175	\$ 4,750

I. Computer Equipment

In fiscal year 2006, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the purchase of computer equipment. At June 30, 2007 the principal was \$12,000, interest paid monthly and principal paid yearly. Payment requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2008	\$ 3,000	\$ 672
2009	3,000	600
2010	3,000	448
2011	3,000	210
Totals	\$ 12,000	\$ 1,930

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 6. Long-term Debt (Continued)

J. Toll Plaza

In fiscal year 2006, the Metcalfe County Fiscal Court entered into lease/purchase agreement with the State of Kentucky for the purchase the former toll plaza. The agreement was for the duration of five years. At June 30, 2007 the principal was \$27,000 with principal payments due paid annually. Future payment requirements are:

Fiscal Year Ended June 30,	Governmental Activities
	Principal
2008	\$ 9,000
2009	9,000
2010	9,000
Totals	<u>\$ 27,000</u>

K. Chevy Impala

On June 17, 2007, the Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The financing agreement was for the purchase of a Chevy Impala for the jailer. At June 30, 2007 the principal was \$15,995, interest paid monthly and principal paid yearly. Payment requirements are:

Fiscal Year Ended June 30,	Governmental Activities	
	Principal	Interest & Fees
2008	\$ 4,000	\$ 884
2009	4,000	731
2010	4,000	524
2011	3,995	238
Totals	<u>\$ 15,995</u>	<u>\$ 2,377</u>

L. Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Revenue Bonds	\$ 4,690,000	\$ 0	\$ 195,000	\$ 4,495,000	\$ 205,000
Financing Obligations	1,513,398	15,995	106,204	1,423,189	105,739
Governmental Activities					
Long-term Liabilities	<u>\$ 6,203,398</u>	<u>\$ 15,995</u>	<u>\$ 301,204</u>	<u>\$ 5,918,189</u>	<u>\$ 310,739</u>

METCALFE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2007
(Continued)

Note 7. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$148,277 in interest on financing obligations and \$202,743 in interest on bonds.

Note 8. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 28.21 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 9. Insurance

For the fiscal year ended June 30, 2007, Metcalfe County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Subsequent Events

A. On October 1, 2007, Metcalfe County Fiscal Court entered into a financing agreement with the Kentucky Association of Counties for the purchase of a mower. The terms stipulate monthly principal and interest payments beginning November 20, 2007. The amount financed was \$28,425 and the final payment will be due on October 20, 2010.

B. In October 2007, Metcalfe County entered into an agreement with the Kentucky Association of Counties for \$550,000 to be placed into an interest bearing account in order to draw interest. The rate on the loan is usually lower than the account in which it is invested. Therefore, the County earns interest in excess that will be used for various projects.

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 905,400	\$ 922,042	\$ 1,079,564	\$ 157,522
In Lieu Tax Payments	75,000	110,012	110,012	
Excess Fees	3,500	3,500	50,146	46,646
Licenses and Permits	1,900	4,782	7,752	2,970
Intergovernmental	153,060	209,464	161,535	(47,929)
Miscellaneous	97,600	117,103	129,512	12,409
Interest	20,000	27,893	35,757	7,864
Total Revenues	<u>1,256,460</u>	<u>1,394,796</u>	<u>1,574,278</u>	<u>179,482</u>
EXPENDITURES				
General Government	705,404	705,404	720,295	(14,891)
Protection to Persons and Property	184,300	184,300	150,035	34,265
General Health and Sanitation	60,223	60,223	93,946	(33,723)
Social Services	4,000	4,000	4,000	
Debt Service	135,000	135,000	121,459	13,541
Capital Projects	9,000	9,000	9,000	
Administration	807,178	1,008,418	345,788	662,630
Total Expenditures	<u>1,905,105</u>	<u>2,106,345</u>	<u>1,444,523</u>	<u>661,822</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(648,645)</u>	<u>(711,549)</u>	<u>129,755</u>	<u>841,304</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	15,000	15,000		(15,000)
Transfers from Other Funds			398	398
Transfers to Other Funds	<u>(166,355)</u>	<u>(166,355)</u>	<u>(242,741)</u>	<u>(76,386)</u>
Total Other Financing Sources (Uses)	<u>(151,355)</u>	<u>(151,355)</u>	<u>(242,343)</u>	<u>(90,988)</u>
Net Changes in Fund Balance	(800,000)	(862,904)	(112,588)	750,316
Fund Balance - Beginning	<u>800,000</u>	<u>862,904</u>	<u>862,904</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 750,316</u>	<u>\$ 750,316</u>
Reconciliation of General Fund				
Total Expenditures - Budgetary Basis			\$ 1,444,523	
Plus: Expenditures for Purchase of Equipment			<u>15,995</u>	
Total Expenditures - Modified Cash Basis			<u>\$ 1,460,518</u>	
Other Financing Sources (Uses) - Budgetary Basis			\$ (242,343)	
Plus: Proceeds from Financing Obligation			<u>15,995</u>	
Total Other Financing Sources (Uses) - Modified Cash Basis			<u>\$ (226,348)</u>	

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 963,097	\$ 1,518,508	\$ 1,513,644	\$ (4,864)
Miscellaneous	6,900	6,900	395,725	388,825
Interest	20,000	23,921	43,979	20,058
Total Revenues	989,997	1,549,329	1,953,348	404,019
EXPENDITURES				
Protections to Persons & Property	35,000	35,000		35,000
General Health & Sanitation	8,400	32,400	13,852	18,548
Roads	835,151	1,338,151	1,367,175	(29,024)
Debt Service	546,000	932,900	988,182	(55,282)
Administration	390,446	672,757	103,791	568,966
Total Expenditures	1,814,997	3,011,208	2,473,000	538,208
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(825,000)	(1,461,879)	(519,652)	942,227
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			727	727
Transfers To Other Funds			(41,289)	(41,289)
Lease Proceeds	425,000	900,560	530,160	(370,400)
Total Other Financing Sources (Uses)	425,000	900,560	489,598	(410,962)
Net Changes in Fund Balance	(400,000)	(561,319)	(30,054)	531,265
Fund Balance - Beginning	400,000	561,319	561,319	
Fund Balance - Ending	\$ 0	\$ 0	\$ 531,265	\$ 531,265

Reconciliation of Road Fund

Total Expenditures - Budgetary Basis	\$ 2,473,000
Plus: Expenditures for Purchase of Equipment	764,500
Total Expenditures - Modified Cash Basis	<u>\$ 3,237,500</u>
Other Financing Sources (Uses) - Budgetary Basis	\$ 489,598
Plus: Proceeds from Financing Obligation	764,500
Total Other Financing Sources (Uses) - Modified Cash Basis	<u>\$ 1,254,098</u>

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 63,595	\$ 66,542	\$ 72,655	\$ 6,113
Charges for Services	100	100		(100)
Miscellaneous	100	100	21,434	21,334
Total Revenues	63,795	66,742	94,089	27,347
EXPENDITURES				
Protection to Persons and Property	166,443	179,427	133,693	45,734
Administration	32,416	44,662	7,810	36,852
Total Expenditures	198,859	224,089	141,503	82,586
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(135,064)	(157,347)	(47,414)	109,933
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	135,064	135,064	135,064	
Total Other Financing Sources (Uses)	135,064	135,064	135,064	
Net Changes in Fund Balance		(22,283)	87,650	109,933
Fund Balance - Beginning		22,283	22,283	
Fund Balance - Ending	\$ 0	\$ 0	\$ 109,933	\$ 109,933

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

AMBULANCE FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 168,500	\$ 175,409	\$ 187,467	\$ 12,058
Excess Fees		150	150	
Intergovernmental	16,100	24,567	21,244	(3,323)
Interest	6,000	11,697	17,089	5,392
Total Revenues	190,600	211,823	225,950	14,127
EXPENDITURES				
General Government	5,000	5,000		5,000
Protection to Persons and Property	200,000	200,000	185,187	14,813
Administration	285,600	474,574		474,574
Total Expenditures	490,600	679,574	185,187	489,387
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(300,000)	(467,751)	40,763	508,514
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			707	707
Total Other Financing Sources (Uses)			707	707
Net Changes in Fund Balance	(300,000)	(467,751)	41,470	509,221
Fund Balances - Beginning	300,000	467,751	467,751	
Fund Balances - Ending	\$ 0	\$ 0	\$ 509,221	\$ 509,221

METCALFE COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2007
(Continued)

STATE GRANTS FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 1,000,000	\$ 1,000,000	\$ 499,348	\$ (500,652)
Miscellaneous	0	0	8,645	8,645
Total Revenues	1000000	1,000,000	507,993	(492,007)
EXPENDITURES				
General Health & Sanitation	300,000	300,000	104,785	195,215
Debt Service	150,000	150,000		150,000
Capital Projects	445,000	445,000	149,860	295,140
Administration	105,000	135,741		135,741
Total Expenditures	1,000,000	1,030,741	254,645	776,096
Excess (Deficiency) of Revenues Over Expenditures Before Transfers and Financing Sources (Uses)		(30,741)	253,348	284,089
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			75,000	75,000
Total Other Financing Sources (Uses)			75,000	75,000
Net Changes in Fund Balances		(30,741)	328,348	359,090
Fund Balances - Beginning		30,741	30,741	
Fund Balances - Ending	\$ 0	\$ 0	\$ 359,089	\$ 359,090

METCALFE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2007

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

METCALFE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

METCALFE COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2007

	Local Government Economic Assistance Fund	Federal Grants Fund	Disaster and Emergency Services Fund	Courthouse Renovation Fund	Metcalf County Public Properties Construction Fund	Total Non-Major Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 16,531	\$ 64,979	\$ 20,669	\$ 240,044	\$ 8,756	\$ 350,979
Total Assets	<u>\$ 16,531</u>	<u>\$ 64,979</u>	<u>\$ 20,669</u>	<u>\$ 240,044</u>	<u>\$ 8,756</u>	<u>\$ 350,979</u>
FUND BALANCES						
Reserved For:						
Grants	\$	\$	\$ 689	\$	\$	\$ 689
Unreserved:						
Capital Projects Fund					8,756	8,756
Special Revenue Funds	<u>16,531</u>	<u>64,979</u>	<u>19,980</u>	<u>240,044</u>		<u>341,534</u>
Total Fund Balances	<u>\$ 16,531</u>	<u>\$ 64,979</u>	<u>\$ 20,669</u>	<u>\$ 240,044</u>	<u>\$ 8,756</u>	<u>\$ 350,979</u>

The accompanying notes are an integral part of the financial statements.

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METCALFE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

METCALFE COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2007

	Local Government Economic Assistance Fund	Federal Grants Fund	Disaster and Emergency Services Fund	Courthouse Renovation Fund	Metcalf County Public Properties Construction Fund	Total Non-Major Governmental Funds
REVENUES						
Intergovernmental	\$ 12,328	\$ 70,400	\$ 15,423	\$ 87,795		\$ 185,946
Miscellaneous Revenues	5,439			111	186	5,736
Total Revenues	<u>17,767</u>	<u>70,400</u>	<u>15,423</u>	<u>87,906</u>	<u>186</u>	<u>191,682</u>
EXPENDITURES						
General Government	19,796		19,642			39,438
Recreation and Culture		42,710				42,710
Capital Projects		40,844		74,384		115,228
Administration	2,513		3,647			6,160
Total Expenditures	<u>22,309</u>	<u>83,554</u>	<u>23,289</u>	<u>74,384</u>		<u>203,536</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(4,542)</u>	<u>(13,154)</u>	<u>(7,866)</u>	<u>13,522</u>	<u>186</u>	<u>(11,854)</u>
OTHER FINANCING SOURCES (USES)						
Transfers To Other Funds	(5,439)					(5,439)
Transfers From Other Funds	9,804	40,842	21,487			72,133
Total Other Financing Sources (Uses)	<u>4,365</u>	<u>40,842</u>	<u>21,487</u>			<u>66,694</u>
Net Change in Fund Balances	(177)	27,688	13,621	13,522	186	54,840
Fund Balances - Beginning	16,708	37,291	7,048	226,522	8,570	296,139
Fund Balances - Ending	<u>\$ 16,531</u>	<u>\$ 64,979</u>	<u>\$ 20,669</u>	<u>\$ 240,044</u>	<u>\$ 8,756</u>	<u>\$ 350,979</u>

The accompanying notes are an integral part of the financial statements.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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The Honorable Greg Wilson, Metcalfe County Judge/Executive
The Honorable Donald Butler, Former Metcalfe County Judge/Executive
Members of the Metcalfe County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Metcalfe County, Kentucky, as of and for the year ended June 30, 2007, which collectively comprise the County's basic financial statements and have issued our report thereon dated January 28, 2008, wherein we issued a qualified opinion on the discretely presented component unit because it did not issue its financial statements in accordance with the modified cash basis of accounting. Other auditors whose report has been furnished to us audited those financial statements. Metcalfe County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The audit of the Metcalfe County Health Services, Inc. was not conducted in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Metcalfe County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Metcalfe County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Metcalfe's County internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiencies described in the accompanying comments and recommendations to be significant deficiencies in internal control over financial reporting: 2007-01, 2007-02, 2007-03, 2007-04, 2007-05, 2007-07, 2007-08, and 2007-09.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that of the significant deficiencies described above 2007-03, 2007-04, and 2007-05 are material weaknesses.

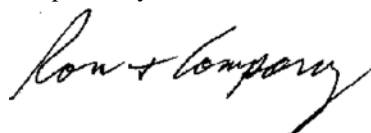
Compliance And Other Matters

As part of obtaining reasonable assurance about whether Metcalfe County's financial statements for the year ended June 30, 2007, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the comments and recommendations: 2007-06 and 2007-07.

The Metcalfe County Judge/Executive's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the County Judge/Executive's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", is written over a horizontal line.

Ross & Company, PLLC
Certified Public Accountants

January 28, 2008

METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS

For The Year Ended June 30, 2007

**METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2007

2007-01 The County Should Improve Its Internal Control Procedures

The County has a lack of segregation of duties. Due to the entity's diversity of official operations, small size, and budget restrictions the County has limited options for establishing an adequate segregation of duties. We recommend the following procedures be implemented to strengthen the internal control weaknesses:

- An independent person should list all receipts and agree them back to the treasurer's receipts ledger. Also, the employee opening the mail should keep a listing of all checks received for that day, detailing the date received, the check amount, whom it is from, and what the check is for.
- An independent person should open bank statements and review them for unusual items, such as debit memos, and overdraft charges. The person by initialing the bank statement can document this.
- An independent person should review the treasurer's bank reconciliations for accuracy. The person completing this review should initial the bank reconciliation to document that a review was performed.
- An employee independent of check writing and posting duties should match purchase orders to checks and invoices. The employee who signs the checks should cancel the purchase orders and invoices to ensure invoices are not paid twice.
- To have better internal controls, it is considered a best practice to keep the receipt of cash, the disbursement of cash, and the posting of cash to the ledgers delegated to separate individuals.
- Also, the County should implement stronger internal controls over the computer system. All transactions should be backed up daily on a disk and should be secured off-site.

County Judge/Executive Greg Wilson's Response:

The County will strive to implement the procedures to improve internal control and put in place corrective action as limited staff will allow.

2007-02 The County Should Maintain Proper Records For The Public Properties Corporation

The County should maintain proper records for the Public Properties Corporation (PPC) – Sinking Fund and Construction Fund. Since the Fiscal Court is financially accountable and legally obligated for the debt of the PPC, it is a blended component unit of the Fiscal Court. The County should receive the bank statements for the PPC, maintain a receipts and disbursements ledger, reconcile the account monthly, and prepare a financial statement. We recommend the County maintain proper records for the PPC in the future.

County Judge/Executive Greg Wilson's Response:

The County will maintain proper records for the Metcalfe County Public Properties Corporation in the future.

METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2007
(Continued)

2007-03 The County Should Maintain Complete And Accurate Capital Asset Schedules To Comply With GASB 34 Requirements

The County did not have a completed capital asset schedule for fiscal year ended June 30, 2007. A list of capital asset additions and disposals was not properly maintained. A schedule of additions should be maintained as assets are purchased to simplify the process of updating the capital asset schedule. The schedule should include the date the asset is acquired, a description of the asset, the vendor name, and the amount. Invoices for asset acquisition and invoices for all other disbursements should be kept on file in a manner that allows retrieval of the original invoice for review and verification as needed by management and auditors. Further, we believe that the capital asset listing should be monitored and maintained on a regular basis. As new assets are acquired they should be added to the listing. As equipment is disposed of it should be removed from the listing. We recommend that the County maintain complete and accurate capital assets schedules to comply with GASB 34 requirements.

The Fiscal Court should take a physical inventory of its capital assets on a regular basis (such as every two to three years) or at the beginning of a new administration to ensure that only active, in-service machinery and equipment is included on the County's financial statements. This will ensure that fixed assets are properly stated and that depreciation is being calculated from a reliable listing.

County Judge/Executive Greg Wilson's Response:

The County will maintain complete and accurate capital asset schedules to ensure compliance.

2007-04 The County Should Review Control Activities Of The Accounting Software

Through observation and inquiry, it was noted that several deficiencies appear to exist with regards to the Fiscal Court's accounting software. The software is installed on the following computers: the Judge, the Finance Officer, and the Treasurer. User restrictions are not in place leaving the accounting and financial data prone to manipulation. The system does not have passwords and can be easily accessed. In addition, the payroll software does not have adequate restrictions and controls. The payroll software allows any user to add or delete vacation, sick, and holiday hours that have accrued to an employee. We believe this is a significant deficiency that could result in employees receiving additional pay that has not been earned.

We recommend that the Fiscal Court contact its systems administrator or software manufacturer. Specifically, the accounting and payroll software should be reviewed and the following controls implemented:

- Identify authorized users and define their access to relevant information.
- Establish physical and logical controls to prevent or detect unauthorized access.
- Limit access to the accounting and payroll software based on job responsibilities and document user authorizations.
- Passwords should be changed periodically and employees should not share their password with others.
- Establish adequate physical controls to ensure that access to computer workstations is restricted to authorized personnel. For example, employees should log off when leaving their office or desk.
- Establish appropriate procedures for back-up and storage of applications and data files.
- The Treasurer and Finance Officer should only have access privileges to the accounting and payroll software for their specified duties.

**METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2007-04 The County Should Review Control Activities Of The Accounting Software (Continued)

Judge Executive Greg Wilson's Response:

The County will contact the system software manufacturer and request controls suggested. Payroll records of leave time earned and used are maintained manually providing supporting verification.

2007-05 The County Should Improve Purchase And Procurement Procedures

During testing we noted instances of nonfederal expenditures tested that did not have the original supporting documentation.

Good internal controls dictate that adequate original supporting documentation be maintained for all receipts and disbursements. All original invoices should be maintained, agreed to the corresponding purchase order, and canceled upon payment. Copies are not acceptable.

Lack of proper accounting practices and internal control increase the risk that misstatements of financial activity and/or fraud will occur and go undetected by the fiscal court. Without proper procedures in place to mitigate this risk, the fiscal court is exposing public resources to potential misstatements and/or fraud.

We recommend the fiscal court maintain all original invoices and ensure that all purchase orders are signed. Also, invoices should be agreed to purchase orders and discrepancies should be investigated and resolved.

County Judge/Executive Greg Wilson's Response:

The County will make every effort to obtain original invoices for supporting documentation as recommended.

2007-06 The County Should Amend And File The Former Judge/Executive's 2005 W-2

During payroll testing, it was determined that the former Judge/Executive's 2005 W-2 was incorrect. The Judge/Executive declined training incentive monies from years prior to the December 2004 year-end. The Fiscal Court was then instructed by GOLD to pay the Judge's training incentive money retroactively. A check was issued to the Judge in the gross amount of \$12,008.80. This amount was not included on the Judge's 2005 W-2.

We recommend the fiscal court amend and file a 2005 W-2 for the former Judge/Executive and file a 1st quarter 941C for year ended December 31, 2005. We also recommend that in future, transactions such as the one mentioned above be performed through the payroll system in order to help ensure the accuracy of payroll filings.

County Judge/Executive Greg Wilson's Response:

The County will amend and file a corrected 2005 W-2 for the Judge/Executive and file a first quarter 941-C for calendar year 2005.

**METCALFE COUNTY
COMMENTS AND RECOMMENDATIONS
FISCAL YEAR ENDED JUNE 30, 2007
(Continued)**

2007-07 The Fiscal Court Minutes Should Include A Listing Of All Approved Claims, Road Logs, And Road Plans

Our audit revealed two instances where the claims lists were not recorded in the minutes. Therefore, we were unable to substantiate the allowance of some of the claims that were tested on our test of expenditures. We were also unable to locate road logs and road plans in the minutes.

In an effort to increase controls over the Fiscal Court minutes, we recommend that the claims lists be indexed and attached to the minutes. All supporting documentation should be located in the minutes as well in order to support any decision made by the Court. Also, we recommend that road logs be maintained in the minutes that describe the work completed since the prior meeting. In addition, we recommend that road plans be placed in the minutes. The road plans consist of work that is to be performed in the near future by the road department as well as roads that are scheduled for maintenance by other entities.

County Judge/Executive Greg Wilson's Response:

The County will provide and record the two claims listings not recorded in August 2006. The County will recommend to the County Court Clerk the indexing of all documents presented for recording. The County will include a listing of approved claims, road logs and plans in fiscal court minutes.

2007-08 The County Had \$58,000 Of Questionable Expenditures From The Road Fund

On November 14, 2006 during a Fiscal Court meeting, the former Judge/Executive stated that the County had some excess monies for road blacktopping. The former Judge/Executive was approved to use the monies for road blacktopping at his discretion. On November 15, 2006, the County received an invoice for the paving of three roads. These roads included: *Teddy Ray Rd.*, *Barry Steele Rd.*, and *H.L. Harper Rd.* A check dated November 14, 2006, was written to Glass Paving and Stone, LLC for the full payment of \$58,000. The work was not performed until April 2007. In addition, the residents on these roads include two former magistrates and the former Judge/Executive. After the work was performed it was noted that the pavement for *H.L. Harper Rd.* was reduced and *Misty Lane* was blacktopped as well. Further review and additional investigation of the blacktopping expenditures revealed that the blacktopping of part of *Teddy Ray Rd.* was private property.

Section 171 of the Kentucky Constitution does not permit a county to expend public funds for private purposes. Public funds may not be used to pave private roads. In order for the Fiscal Court to adopt a private road into the county road system, the court must approve the road by ordinance or resolution. Currently, the portion of *Teddy Ray Rd.* that was blacktopped is not a county road and therefore should not have been paved.

Section 3 of the Kentucky Constitution prohibits the advance payment for goods or services. The services mentioned above were not rendered until five (5) months after the County sent payment for the project. Ruling OAG 79.448 also forbids and upheld that prepayment for goods and services are not permitted.

Also, the relationship of these expenditures to the former county officials who approved the funds to be spent is considered a material conflict of interest and should be unallowable.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

2007-08 The County Had \$58,000 Of Questionable Expenditures From The Road Fund (Continued)

As a result of this transaction, we recommend that the County take measures to ensure that events as mentioned above do not reoccur in the future. This would include that the actual road to be worked on be named specifically in the minutes and at no circumstance approve money for the Judge/Executive to spend at his discretion. Also, we further recommend that the County approve and read into the minutes road plans that document roads to be worked on and the services that will be performed on those roads. This comment will be referred to the proper authorities.

County Judge/Executive Greg Wilson's Response:

The County will include a listing of approved road plans in fiscal court minutes.

2007-09 The County's Supporting Documentation Was Incomplete For Asphalt Expenditures And Road Paving Totaling \$596,986

The County's supporting documentation for asphalt expenditures totaling \$596,986 was incomplete. During the audit, we discovered that weight tickets were not attached to properly support \$596,986 of the invoices paid for asphalt purchases and/or road paving during fiscal year ended June 30, 2007. Weight tickets document that the product was received for county operations since they itemize the day, location, the receiver, and quantity of asphalt received. Therefore, it is required that supporting documentation be maintained for asphalt purchases. In an effort to strengthen internal controls over disbursements, we recommend that the County maintain weight tickets for all asphalt expenditures. Furthermore, the county employees should sign weight tickets as evidence that the product was actually received and used for county operations.

County Judge/Executive Greg Wilson's Response:

The County will maintain supporting documentation for asphalt expenditures.

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**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

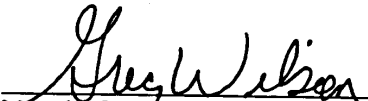
METCALFE COUNTY FISCAL COURT

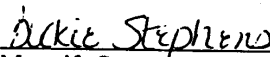
**For The Fiscal Year Ended
June 30, 2007**

CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
METCALFE COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2007

The Metcalfe County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.


Metcalfe County Judge/Executive


Metcalfe County Treasurer

